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RHMFISS/HQ USSOUTHCOM MIAMI FL
RUCPDOC/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 06 CARACAS 001559

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HQ SOUTHCOM ALSO FOR POLAD
TREASURY FOR MKACZMAREK
NSC FOR DRESTREPO
NSC FOR LROSSELLO
USDOC FOR 4332 MAC/ITA/WH/JLAO
SECSTATE PASS TO AG ELECTRONICALLY
AMEMBASSY BRIDGETOWN PASS TO AMEMBASSY GRENADA
AMEMBASSY OTTAWA PASS TO AMCONSUL QUEBEC
AMEMBASSY BRASILIA PASS TO AMCONSUL RECIFE

E.O. 12958: DECL: 2019/12/16
TAGS: ECON ETRD EAGR PINR PREL VE CO
SUBJECT: C-AL9-02397 GBRV TIGHTENS THE NOOSE ON COLOMBIAN IMPORTS,
BUT FUEL SMUGGLING CONTINUES

REF: STATE 124629; CARACAS 1060; CARACAS 994

CLASSIFIED BY: DUDDY, AMBASSADOR, DOS, AMB; REASON: 1.4(B), (D)

¶1. (C) SUMMARY: On December 8, the Executive President of the Venezuelan-Colombian Economic Integration Board (CAVECOL), Luis Alberto Russian, told EconOffs that while custom offices remain open on the Colombian border the Venezuelan Government (GBRV) has erected a series of administrative barriers that have significantly restricted bilateral trade. In November 2009, bilateral trade fell by 78 percent, compared to the same month in 2008, and China replaced Venezuela as Colombia's second largest export market. While Colombia continues to export some products under existing licenses, and other products that do not require GBRV documentation, the Venezuelan Foreign Currency Board (CADIVI) categorically rejects all foreign exchange authorizations for Colombian imports. The deterioration of bilateral trade has particularly affected Zulia and Tachira, opposition-led border states where GBRV authorities have implemented a number of restrictive measures to reduce informal commerce and gasoline smuggling, a lucrative trade that the National Guard overlook in exchange for large bribes. END SUMMARY.

CHINA REPLACES VENEZUELA AS COLOMBIA'S SECOND LARGEST MARKET

¶2. (SBU) CAVECOL's monthly trade statistics indicate a steady deterioration of commercial relations between Venezuela and Colombia: bilateral trade fell by 38 percent in July, 48 percent in August, 50 percent in September, 70 percent in October, and 78 percent in November when compared to the same months in 2008. On December 3, the local press reported that China had surpassed Venezuela as Colombia's second largest trading partner in the first two weeks of November 2009; Colombia's National Tax and Customs Agency (DIAN) valued Colombian exports to Venezuela over this period at USD 76 million compared to USD 100.6 million for China.

VENEZUELA TIGHTENS THE NOOSE ON BILATERAL TRADE

¶3. (C) On December 8, the Executive President of CAVECOL, Luis Alberto Russian (protect throughout), told EconOffs that while GBRV customs offices remain open along Venezuela's border with Colombia, Venezuelan authorities have applied several administrative measures to stifle bilateral trade: 1) The GBRV has suspended or delayed the issuance of permits, registrations, and licenses required to import Colombian products, including sanitary and phytosanitary permits for animal and vegetable products; 2) Venezuelan authorities have refused to issue Certificates of Origin required to export Venezuelan products to Colombia; and 3) the Foreign Exchange Currency Board (CADIVI) has categorically rejected requests for foreign exchange to import Colombian products or to pay for Colombian services. Russian said that CADIVI has an outstanding debt of USD 800 million for previous imports from Colombia.

¶4. (C) The Colombian products that continue to enter Venezuela meet one of two conditions: 1) the required documentation to import the product has not yet expired, or 2) the product does not require GBRV documentation. In both cases, the parallel rate determines the price of the import-since CADIVI no longer authorizes foreign exchange requests for Colombian products-so demand for the product must meet or exceed the price at the parallel rate. The few imports that meet these conditions include natural gas, pharmaceuticals, ceramics, paper products, and some basic chemical products. Russian explained that Colombia is trying to reroute exports through Panama and Peru in order to retain access to the

Venezuelan market. But Peru has also been a target of GBRV anti-trade measures, so it re-exports Colombian products to Venezuela via Ecuador and Brazil.

¶5. (SBU) In a report published on November 11, which included the third quarter statistics provided below, CAVECOL estimated that bilateral trade would fall approximately 30 percent in 2009, or by USD 1.8 billion. Industrial and agricultural products have been hit particularly hard. Sales of light industry products fell by 40.5 percent in the third quarter, while imports of primary goods dropped by 42 percent in the period from January to September 2009. But the precipitous decline in imports of Colombian meat products remains the clearest example of the deterioration of bilateral trade: In September 2009, imports in this product category fell by 92 percent compared to the same month in 2008.

Change in Colombia's Exports to Venezuela in the Third Quarter of 2009 (by product with largest share of total trade)

Source: National Tax and Customs Agency (DIAN)

Millions of USD

% Change

% of Total Exports

Product

2008

2009

2008 to 2009

2008

2009

Meat and edible meats

182.4

67.07

-63.2%

12.9%

8.0%

Articles of apparel and accessories, not knitted

138.91

50.34

-64%

10%

6.0%

Vehicles other than railway rolling stock

81.14

32.90

-59.5%

5.7%

3.9%

Boilers, machinery and mechanical appliances

72.33

66.66

-7.8%

5.1%

8.0%

Paper and paperboard

71.12

60.18

-15.4%

5.0%

7.2%

Electrical machinery and mechanical appliances

68.52

37.33

-45.5%

4.8%

4.5%

Plastics and articles thereof

64.87

33.65

-48.1%

4.6%

4.0%

Raw hides, skins, leather

60.82

7.33

-88.0%

4.3%

0.9%

Footwear

38.45

9.09

-76.3%

2.7%

1.1%

Lac, gums, resins, other vegetable saps and extracts

37.32

35.91

-3.8%

2.6%

4.3%

Dairy produce, bird eggs, natural honey

36.97

5.83

-84.2%

2.6%

0.7%

Products of animal origin

30.96

0.00

-100%

2.2%

0.0%

Articles of apparel and accessories, knitted

26.98

15.8

-41.4%

1.9%

1.9%

Subtotal

910.79

422.09

-53.7%

64.4%

50.5%

Total

1,414.65

835.05

-40.97%

100%

100%

DECLINE IN BILATERAL TRADE HITS OPPOSITION-LED STATES THE HARDEST

¶6. (SBU) The downturn in bilateral trade has particularly affected Venezuela's border states, specifically the opposition-led states of Tachira and Zulia. In Tachira, CAVECOL reported that daily commercial activity by small Venezuelan vendors has decreased from USD 1.4 million per day to USD 70,000 per day as a result of restrictions on Colombians entering Venezuela, frequent searches of goods crossing the border, and the confiscation of merchandise by the National Guard.

¶7. (SBU) In order to fight gasoline smuggling, which Russian characterized as the "escape valve" for border trade, the GBRV has reduced the supply of gasoline to the border region, closed gas stations, and limited the hours of operation for gas stations that remain open (Note: Gasoline prices in Venezuela are among the cheapest in the world. At a fixed price of .097 bolivares per liter, or about USD .04 cents at the official rate, gasoline is cheaper than bottled water. End Note.) Russian, who travels frequently to the border region, said that these regulations have created long lines at gas stations but have not stopped the flow of contraband gasoline into Colombia, a lucrative trade that the National Guard continues to overlook in exchange for large bribes.

¶8. (SBU) On December 11, the daily "La Verdad" reported that the Ministry of Energy and Petroleum had restricted the sale of gasoline in 12 gas stations in Maracaibo, the capital of Zulia, to just three bolivars (USD 1.39 at the official rate) of gasoline for private vehicles and 5 bolivares (USD 2.32 at the official rate) for cargo and public transportation vehicles. While GBRV authorities claimed that the measure was intended to reduce fuel smuggling to Colombia, critics portrayed the measure as politically motivated, pointing out that Maracaibo is not on the Colombian border.

¶9. (C) COMMENT: The GBRV has strangled Colombian imports with a noose of bureaucratic red tape. Local observers anticipate that Colombian imports will continue to decline as the remaining permits expire and are not renewed. Post expects informal and illegal trade to continue, despite GBRV efforts to reduce it, given the high level of corruption among GBRV officials on the Colombian border. For the moment, the GBRV appears willing to bear the economic costs of cutting Colombian trade, especially since these costs are concentrated in the opposition-led border states. END

COMMENT.
DUDDY